1-5-81 B 0900-1 U

BANKERS TRUST COMPANY

ECONOMIC BENCHMARKS

December 10, 1980

TAKING STOCK OF THE ECONOMY AT YEAR-END

Though the recession bottomed out sooner than virtually everyone anticipated and the Republican victory in November appeared to give a lift to business sentiment for a time, the economy is winding up the first year of the decade of the 1980s on a most uncertain note. Even the optimists are now expressing doubts regarding the strength and staying power of the pickup in business activity that began in the summer, while those who are more bearish hold that the recovery is already stalling and will soon abort. But all forecasters concur that the path of economic activity over the next several months will at best be a rocky one.

Underlying The Concern Several developments underlie the mounting concern about the economic outlook. One is that the 1980 recession lasted barely six months, the shortest on record, which was not long enough for corporate balance sheets to be fully restructured or for all of the other needed adjustments to be made. Nor did it allow for much of a buildup in deferred demands that could reinforce the business recovery as time goes on.

But far more important is that the economy emerged from this latest business downturn with a much higher rate of inflation than prevailed at the start of the 1975-79 expansion, and with inflation psychology clearly more deeply engrained. As a result, money market rates and bond yields have been pushed up sharply again and are at or above the peak levels reached in the spring. Moreover, as of now there is little to indicate that the upsurge in interest rates is about to be reversed or that the still-rapid pace of inflation can quickly be slowed.

As at this time last year and again around mid-1980, forecasters have frequently been surprised by the resiliency of the economy—and may well be again moving into and through 1981. Given what has happened to interest rates, however, it seems doubtful that business activity can stay on an uptrend much longer.

Recovery Restraints Although demographic forces remain generally favorable to housing demand, and there is no big inventory of unsold single-family homes to be absorbed, the revival in residential building that began in the spring is showing signs of being interrupted by a lack of financing. The thrift institutions are again experiencing intense competition for deposits from the sharp rise in market interest rates; and, with their earnings in a severe squeeze, a large share of the high-cost funds obtained is being used to build liquidity rather than for mortgage lending. Accordingly, home mortgage rates, which had fallen from 17 per cent and more early in the spring to 12 per cent and lower by the summer, have generally moved back to the 14 to 15 per cent range. As a result, many potential home buyers, particularly first-time buyers, can no longer qualify for mortgage loans and many of those who do find the cost of owning a home is now beyond their reach.

New-home sales have slowed conspicuously since the end of the summer in most sections of the country. And in October, there was a sharp drop-off both in the number of new building permits issued and in new residential contract awards. Even if mortgage interest rates were to come down quickly, residential building would probably be forced to mark time for a while, and if rates stay where they are for an extended period, or go still higher, housing is bound to experience a relapse, probably extending into the spring.

The high and rising cost of borrowing is beginning to affect consumer buying in other areas, judging from the softening of new-car sales in November, though the higher price tags on the new models no doubt were also a contributing factor. Despite a $9½ billion paydown of instalment debt during the spring and early summer after controls were imposed on consumer credit in March, many American families are still having to cope with large monthly debt repayments and are financially hard-pressed, as inflation and tax "bracket creep" continue to reduce real disposable income.

Even though employment is still rising and consumer confidence seemingly has been bolstered since the election, many consumers are still in a financial bind and are not likely soon to be avid purchasers of automobiles and other big-ticket items. Overall, retailers may enjoy a not unsatisfactory Christmas season, but with the Christmas bills to pay and Social Security taxes rising on January 1, retail sales could well be weak for a time early next year. While enactment of a tax cut presumably would give a lift to retail trade in the spring, an easing in the rate of inflation—and in the cost of borrowing—will be required for the consumer to become an ongoing source of support to business activity again.

Business Spending The same holds true for spending by business. Some manufacturers, retailers, and companies in wholesale trade probably are now in a position where they should give thought whether to add to their inventories. But considering the very high cost of carrying inventories and

QUARTERLY ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1979				1980				1981			
	1st (act.)	2nd (act.)	3rd (act.)	4th (act.)	1st (act.)	2nd (act.)	3rd (act.)	4th (proj.)	1st (proj.)	2nd (proj.)	3rd (proj.)	4th (proj.)
GNP (const. 1972$)	1430.6	1422.3	1433.3	1440.3	1444.7	1408.6	1411.7	1421.8	1418.4	1425.2	1435.7	1451.0
Per cent change (1)	1.1	−2.3	3.1	2.0	1.2	−9.6	.9	2.9	−1.0	2.0	3.1	4.3
GNP price deflator (2)	160.2	163.8	167.2	170.6	174.5	179.0	183.2	187.6	192.3	196.9	201.5	206.2
Per cent change (1)	9.3	9.3	8.5	8.3	9.5	10.7	9.8	10.0	10.2	10.0	9.8	9.6
Consumer price index (3)	207.6	214.0	220.8	228.0	237.1	244.8	249.1	256.1	263.9	271.2	278.2	285.0
Per cent change (1)	13.0	12.8	13.8	13.7	18.1	11.6	7.0	12.0	13.0	11.0	10.5	10.0
Gross national product	2292.1	2329.8	2396.5	2456.9	2520.8	2521.3	2586.5	2668.0	2726.9	2806.0	2893.5	2992.1
Consumer spending	1454.2	1475.9	1528.6	1580.4	1629.5	1626.6	1683.3	1729.0	1772.0	1824.3	1880.5	1940.1
Durable goods	213.8	208.7	213.4	216.2	220.2	195.7	208.5	214.2	216.8	222.0	229.0	237.8
Autos and parts	97.7	89.1	89.8	89.4	92.9	71.8	79.7	82.3	82.3	84.3	87.3	91.4
Other durables	116.1	119.6	123.6	126.8	127.3	123.9	128.8	131.9	134.5	137.7	141.7	146.4
Nondurable goods	571.1	581.2	604.7	630.7	652.0	654.1	665.8	677.2	693.5	711.8	731.5	751.6
Services	669.3	686.0	710.6	733.5	757.3	776.9	808.9	837.7	861.7	890.4	920.1	950.7
Investment outlays	373.8	395.4	392.3	387.2	387.7	368.5	348.4	375.6	377.0	387.0	401.5	420.3
Fixed investment	354.6	361.9	377.8	381.7	383.0	357.1	365.2	370.6	374.0	379	390.5	405.3
Nonresidential	243.4	249.1	261.8	265.2	272.6	268.2	270.9	272.0	276.0	282.3	290.3	299.4
Structures	84.9	90.5	95.0	100.2	103.3	103.7	102.0	101.0	101.7	103.0	105.0	107.5
Equipment	158.5	158.6	166.7	165.1	169.4	164.5	168.9	171.0	174.3	179.3	185.3	191.9
Residential	111.2	112.9	116.0	116.4	110.4	88.9	94.2	98.5	98.0	96.8	100.2	105.9
Change in inventories	19.1	33.4	14.5	5.6	4.7	11.4	−16.8	5.0	3.0	8.0	11.0	15.0
Net exports	4.0	−8.1	−2.3	−11.9	−13.6	−2.2	21.3	12.8	11.0	10.5	9.7	8.9
Exports	238.5	243.7	267.3	280.4	308.1	307.0	313.2	317.0	323.9	332.5	342.1	351.9
Imports	234.4	251.9	269.5	292.4	321.7	309.2	291.9	304.2	313.0	322.0	332.3	343.0
Government expenditures	460.1	466.6	477.8	501.2	517.2	528.3	533.6	550.6	566.9	584.2	601.8	622.7
Federal	163.6	161.7	162.9	178.4	186.2	193.3	191.4	200.2	207.2	214.6	222.4	233.3
National defense	103.4	106.0	109.0	114.6	119.6	124.1	129.1	136.1	141.2	146.6	152.4	161.5
Other	60.2	55.7	53.9	63.8	66.6	69.2	62.3	64.1	65.9	68.0	69.9	71.8
State and local	296.5	304.9	314.9	322.8	331.0	335.0	342.2	350.5	359.7	369.6	379.4	389.4
Final sales	2272.9	2296.4	2381.9	2451.4	2516.1	2509.9	2603.3	2663.0	2723.9	2798.0	2882.5	2977.1
Per cent change (1)	11.0	4.2	15.7	12.2	11.0	−1.0	15.7	9.5	9.5	11.3	12.6	13.8
Final sales (const. 1972$)	1418.4	1404.1	1426.2	1439.0	1444.4	1406.0	1417.8	1420.8	1422.3	1429.9	1443.3	1458.9
Per cent change (1)	1.1	−4.0	6.4	3.6	1.5	−10.2	3.4	.8	.4	2.1	3.8	4.4
Personal income	1852.6	1892.5	1946.6	2005.0	2057.4	2080.5	2144.6	2211.5	2270.5	2335.4	2421.1	2503.0
Disposable income	1572.2	1601.7	1640.0	1683.1	1737.4	1755.9	1810.7	1863.3	1910.8	1982.3	2052.8	2119.9
Disposable income (1972$)	996.6	993.0	993.4	996.2	998.5	983.1	991.7	994.2	996.6	1010.7	1024.4	1034.1
Saving rate (per cent)	5.0	5.4	4.3	3.5	3.7	4.9	4.7	4.9	5.0	5.7	6.1	6.2
Pretax profits	233.3	227.9	242.3	243.0	260.4	204.8	222.4	218.0	217.0	219.5	234.5	250.0
Nonfinancial	202.3	196.9	209.7	209.4	227.3	175.0	193.6	190.0	189.5	191.5	205.0	218.5
Domestic operating	135.9	133.9	132.3	129.3	125.9	109.7	116.8	120.0	118.0	120.0	130.0	140.0
Domestic inventory	39.9	36.6	44.0	46.5	63.2	27.4	35.9	30.0	30.0	31.0	32.5	34.0
Capital consumption adj.	14.5	14.7	17.6	20.1	22.2	24.6	28.2	30.0	31.5	30.0	31.5	33.0
Foreign	11.9	11.7	15.8	13.5	16.1	13.3	12.7	10.0	10.0	10.5	11.0	11.5
Financial	31.0	31.0	32.6	33.6	33.1	29.8	28.8	28.0	27.5	28.0	29.5	31.5
After-tax profits	142.0	139.3	148.3	146.9	158.0	127.1	137.2	133.5	132.9	141.8	151.4	161.4
Plant & equipment exp.	165.9	173.5	179.3	186.9	191.4	193.9	193.9	195.8	198.7	203.5	209.8	217.7
Private housing starts (4)	1.67	1.82	1.81	1.59	1.26	1.05	1.41	1.40	1.20	1.30	1.50	1.60
Auto sales-incl. imports (4)	11.63	10.53	10.77	9.80	10.77	7.67	8.70	8.90	8.60	9.40	10.00	10.60
Industrial production (3)	152.7	152.3	152.6	152.5	152.5	144.6	142.0	147.0	147.0	147.7	149.6	152.5
Per cent change (1)	5.3	−1.0	.9	−.3	−.1	−19.1	−7.1	15.0	—	2.0	5.0	8.0
Unemployment rate (per cent)	5.7	5.8	5.8	5.9	6.1	7.5	7.6	7.6	8.0	8.1	7.8	7.5

(1) quarter to quarter, annual rate
(2) index number, base 1972 = 100
(3) index number, base 1967 = 100
(4) millions of units
Note: data are seasonally adjusted at annual rates

Economics Division
December 10, 1980

ANNUAL ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1978 (act.)	1979 (act.)	1980 (proj.)	1981 (proj.)	Per Cent Change 1977-78	1978-79	1979-80	1980-81	Per Cent Change (4th Qtr. to 4th Qtr.) 1977-78	1978-79	1979-80	1980-81
GNP (constant 1972$)	1399.2	1431.6	1421.7	1432.6	4.4	2.3	-.7	.8	4.8	1.0	-1.3	2.0
GNP price deflator (1)	152.0	165.5	181.1	199.2	7.3	8.8	9.4	10.0	8.2	8.9	10.0	9.9
Consumer price index (2)	195.4	217.4	246.8	274.6	7.7	11.3	13.4	11.3	9.0	12.7	12.3	11.3
Gross national product	2127.6	2368.8	2574.2	2854.2	12.0	11.3	8.7	10.9	13.4	9.9	8.6	12.1
Consumer spending	1350.8	1509.8	1667.1	1854.2	11.6	11.8	10.4	11.2	12.4	11.7	9.4	12.2
Durable goods	200.3	213.0	209.7	226.4	12.0	6.3	-1.6	8.0	13.8	1.9	-.9	11.0
Autos and parts	91.2	91.5	81.7	86.3	11.8	.3	-10.7	5.7	13.4	-5.8	-7.9	11.1
Other durables	109.1	121.5	128.0	140.1	12.2	11.4	5.3	9.4	14.1	8.2	4.0	11.0
Nondurable goods	530.6	596.9	662.3	722.1	10.2	12.5	10.9	9.0	11.8	13.0	7.4	11.0
Services	619.8	699.8	795.2	905.7	12.7	12.9	13.2	13.6	13.9	13.7	14.2	13.5
Investment outlays	351.5	387.2	370.0	396.5	15.9	10.2	-4.4	7.1	16.9	4.5	-3.0	11.9
Fixed investment	329.1	369.0	369.0	387.2	17.0	12.1	0	4.9	17.2	9.1	-2.9	9.4
Nonresidential	221.1	254.9	270.9	287.0	16.7	15.2	6.3	5.9	18.9	12.3	2.6	10.1
Structures	76.5	92.6	102.5	104.3	22.2	21.0	10.6	1.8	27.5	18.7	.8	6.5
Equipment	144.6	162.2	168.4	182.7	14.1	12.2	3.8	8.5	14.7	8.8	3.6	12.2
Residential	108.0	114.1	98.0	100.2	17.5	5.7	-14.1	2.2	13.8	2.4	-15.3	7.5
Change in inventories	22.3	18.2	1.1	9.2	*	*	*	*	*	*	*	*
Net exports	-10.3	-4.6	4.6	10.0	*	*	*	*	*	*	*	*
Exports	207.2	257.5	311.3	337.6	17.8	24.3	20.9	8.4	29.1	24.7	13.1	11.0
Imports	217.5	262.1	306.8	327.6	17.1	20.5	17.1	6.8	19.3	27.5	4.0	12.7
Government expenditures	435.6	476.4	532.4	593.9	9.9	9.4	11.8	11.5	9.9	10.4	9.9	13.1
Federal	152.6	166.6	192.8	219.4	5.7	9.2	15.7	13.8	5.2	12.2	12.2	16.5
National defense	99.0	108.3	127.2	150.4	5.6	9.3	17.5	18.3	5.0	13.2	18.8	18.7
Other	53.6	58.4	65.5	68.9	5.8	9.0	12.2	5.1	5.5	10.4	.5	12.0
State and local	283.0	309.8	339.7	374.6	12.4	9.5	9.6	10.3	12.7	9.5	8.6	11.1
Final sales	2105.2	2350.6	2573.1	2845.4	12.1	11.7	9.5	10.6	13.4	10.7	8.6	11.8
Final sales (const. 1972$)	1385.1	1421.9	1422.2	1438.6	4.4	2.7	.-	1.1	4.8	1.7	-1.3	2.7
Personal income	1717.4	1924.2	2123.5	2382.5	12.1	12.0	10.4	12.2	12.9	11.2	10.3	13.2
Disposable income	1458.4	1624.3	1791.8	2016.5	11.7	11.4	10.3	12.5	12.0	10.4	10.7	13.8
Disposable income (1972$)	972.6	994.8	991.9	1016.5	4.6	2.3	-.3	2.5	4.2	.5	-.2	4.0
Saving rate (per cent)	4.9	4.5	4.6	5.8	*	*	*	*	*	*	*	*
Pretax profits	206.0	236.6	226.4	230.2	16.3	14.9	-4.3	1.7	24.3	6.9	-10.3	14.7
Nonfinancial	176.8	204.6	196.5	201.1	15.9	15.7	-4.0	2.4	24.9	6.9	-9.3	15.0
Domestic operating	128.3	132.9	118.1	127.0	10.2	3.5	-11.1	7.5	22.1	-10.1	-7.2	16.7
Domestic inventory	25.2	41.8	39.1	31.9	66.6	65.9	-6.3	-18.5	69.4	61.5	-35.5	13.3
Capital consumption adj.	13.1	16.7	26.2	31.5	9.1	27.5	57.0	20.0	6.2	45.7	49.3	10.0
Foreign	10.2	13.2	13.0	10.7	3.8	29.4	-1.5	-17.5	5.5	40.6	-25.9	15.0
Financial	29.2	32.1	29.9	29.1	23.4	9.9	-6.6	-3	20.7	6.7	-16.7	12.5
After-tax profits	121.5	144.1	138.9	146.9	16.3	18.6	-3.6	5.7	22.6	11.0	-9.1	20.9
Plant & equipment exp.	153.8	177.1	193.7	207.4	13.3	15.1	9.8	7.1	18.7	14.0	4.7	11.2
Private housing starts (3)	2.02	1.75	1.28	1.40	1.7	-13.6	-25.5	9.2	-1.0	-22.4	-12.1	14.3
Auto sales-incl. imports (3)	11.31	10.67	9.01	9.65	1.1	-5.7	-15.7	7.1	9	-11.9	-9.2	19.1
Industrial production (2)	146.1	152.2	146.5	149.2	5.7	4.2	-3.9	1.8	7.4	1.2	-3.6	3.7
Unemployment rate (per cent)	6.0	5.8	7.2	7.8	*	*	*	*	*	*	*	*

(1) index number, base 1972 = 100
(2) index number, base 1967 = 100
(3) millions of units
*Not applicable

Economics Division
December 10, 1980

the ready availability of nearly all types of goods, and with the outlook for both consumer buying and home building in doubt, most managements will surely be careful about increasing working stocks until it becomes clear that the economic recovery is continuing. Meanwhile, there is likely to be a tendency to hold back on ordering temporarily; the automobile companies are already trimming production schedules to avoid an excessive buildup of inventories.

Likewise, business management can be expected to go slow with capital investment programs. With the cost of financing so high, corporate profits in a squeeze and over 20 per cent of the nation's manufacturing plant facilities still not being used, spending by industry, other than the energy companies, on new bricks and mortar is certain to be restrained well into 1981. Commercial construction, other than office building, tends to follow with a lag the pattern of residential building, and, in view of the high cost of borrowing and the weakening in housing, no early pickup seems likely here either. At the same time, the recent behavior of manufacturers' new orders for machinery and equiment suggests that capital outlays aimed at modernization and cost cutting are not as yet being stepped up. In view of the widespread expectation of tax cuts and an increase in depreciation allowances by the Reagan Administration, many companies may well delay some new plant and equipment expenditures until the specific legislation is enacted and the new rules of the game are made clear.

Beyond this, it can be expected that deteriorating economic conditions among most of our major trading partners abroad will begin to impact before long on U.S. exports; if the Iraq-Iran war significantly affects the availability and price of oil, the slowdown will be greater. The sustained strength in American exports has contributed more support to business activity here over the past year than is generally realized.

Government Policy Defense ordering is rising, and this could provide more of a stimulus to the overall economy in the year ahead than is now widely assumed, especially if some of the new weapons programs and military obligational authority currently being discussed is implemented. Elsewhere on the fiscal side, however, the Reagan Administration will doubtless take some steps to reduce nonmilitary spending, though they are not likely to have a very significant effect during this fiscal year. More important, recent statements by Chairman Volcker and other members of the Federal Reserve Board, as well as all of the Board's recent actions, make it clear that the monetary authorities remain determined to limit the growth of the money supply, even at the risk of letting the accompanying higher interest rates put a damper on the economy.

Accordingly, it is difficult to see how a slowdown in business activity can be avoided over the winter, although not one on the scale of last spring. This being the case, real growth—GNP adjusted for inflation —is unlikely to increase by much more than 1per cent in 1981, which would be well below the gain experienced in the first full year of past economic recoveries. Against this background, corporate profits should not be expected to rebound strongly. And business managements doubtless will be slow to add to their work force, so that the unemployment rate will stay high.

Inflation Prospects The coming months, however, are not likely to see any substantial improvement on the inflation front. Industrial raw materials prices have risen since the summer, whereas normally coming out of recessions they have held essentially flat for up to a year or more. Despite the recession, labor union wage settlements this year have been exceeding those of a year ago, and, with only slow—and probably irregular—economic growth in prospect, productivity will continue to lag. The cost of energy is sure to move higher, regardless of what happens in the Middle East, because of the ongoing decontrol of domestic oil prices; and the odds are increasing that the world price will also be raised. Finally, food prices, which play such an important role in determining living costs, are predicted to increase more rapidly in 1981 than this year.

It will be surprising, therefore, if over the next year the basic rate of inflation—as measured by the GNP deflator—falls below 10 per cent, and the advance in the more sensitive consumer price index may be somewhat greater. Some real progress could be made, however, in tempering inflationary expectations if the new Administration takes prompt and convincing action to slow the rise in Federal spending, to stimulate savings and investment and reduce the burden of Government regulation. If so, the economic and financial outlook should brighten later in 1981.■

BANKERS TRUST COMPANY

ECONOMIC BENCHMARKS

March 27, 1981

BUSINESS OUTLOOK AND THE NEW ECONOMIC PROGRAM

The arrival of spring continues to find widely divergent opinions regarding the path the economy will follow through the rest of 1981 and in the period beyond. Quite as expected, the pace of business activity has slackened since early in the year, and the leading economic indicators seem to be signaling a further slowing. But so far the economy has shown few signs of the faltering that many forecasters were predicting at the start of this year because of the lofty level of interest rates; rather, indications are that real growth in the first quarter may have exceeded that in the final three months of last year. Similarly, while the inflation numbers over the winter did not make as bad reading as many anticipated, there is no convincing evidence that the upward spiral of prices is really beginning to ease. And contributing more to the confusion concerning the outlook is the current debate over the Reagan Administration's new economic program and its impact.

The proposals to cut Federal taxes and nondefense expenditures and otherwise reduce the role of Government in the nation's economic life are raising hopes in some quarters that the economy is about to break out of the debilitating stagflation of the past couple of years and enter into a period of healthy and protracted growth. Elsewhere, however, and especially in the financial markets, the fear persists that the full implementation of the President's economic program, notably the cutting of Treasury revenues in the face of a sharp step-up in defense outlays, may actually aggravate our economic problems, particularly inflation. This dispute over the implications of the President's proposals is likely to persist even after it becomes clear how the fiscal recommendations will fare in Congress. Likewise, uncertainty over the direction and effects of monetary policy will no doubt continue to color expectations for a time. Meanwhile, the course of business will probably be shaped more by the economic forces already at work, where trends at present are mixed.

The Soft Areas After holding up surprisingly well through the autumn and early winter, thanks to a step-up in Government-subsidized apartment building, housing starts fell abruptly in February to an annual rate of just over 1.2 million units, the lowest level since last June, as residential building declined in all regions of the country. All of the available evidence suggests that home-building activity may stay at reduced levels for a number of months, now that the Government's support to multifamily construction is running out and no additional authorization of Federal funds is in sight.

Sales of both new and existing houses have been sliding for several months, as has the volume of new building permits. Further dimming the prospects for housing, the thrift institutions are experiencing a marked slowdown in their deposit growth, with the result that not only have home mortgage rates remained high but the availability of mortgage money tightened over the winter, forcing many potential home buyers out of the market. With the spread of the variable rate mortgage and other new innovations in home financing, however, residential building is not expected to fall off to the extent it did a year ago; demographic forces remain generally favorable to housing demand and the purchase of a house or a condominium is still regarded as an excellent investment. But even if mortgage rates were to come down fairly quickly, housing will probably mark time until the summer, and nothing in the new Reagan economic program is likely to give much of a spur to home building later this year.

As with housing, our exports, which have provided more support to industrial activity over the past year than is generally appreciated, displayed clear evidence of slowing over the winter. And it can reasonably be expected that, with the obvious slackening in economic expansion among most of our major trading partners abroad, sales of U.S. goods to overseas buyers will not advance as strongly this year as in 1980.

Consumers a Question The probable strength of consumer spending in the months ahead is also being questioned, although there is little evidence yet of any impending weakness. While the increase in retail sales in February fell well short of the January surge, it nevertheless exceeded the rate of inflation. And, considering the much higher fuel bills and the hike in Social Security taxes that took effect at the start of this year, the buoyancy of retail trade over the winter was indeed quite impressive.

In part, however, the recent good showing of retail sales reflects a pickup in new-car buying in response to the extensive rebates being offered by all of the domestic manufacturers. When the rebates end, automobile sales almost certainly will drop back. Elsewhere, retail sales may be restrained, too, by the ongoing squeeze of inflation, by the high cost of borrowing and by the record-low saving rate in recent months. Still, there are developments that would seem to rule out any steep retrenchment in consumer spending. Employment and incomes continue to rise, and, also significant, there is no likelihood of a reimposition of controls on consumer credit, which was primarily responsible for the sharp drop in consumer buying in the spring of 1980. As the year moves on, a cut in personal income taxes should bolster spending; and there could be a pickup in buying in anticipation of the tax

QUARTERLY ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1980				1981				1982			
	1st (act.)	2nd (act.)	3rd (act.)	4th (act.)	1st (est.)	2nd (proj.)	3rd (proj.)	4th (proj.)	1st (proj.)	2nd (proj.)	3rd (proj.)	4th (proj.)
GNP (const 1972$)	1501 9	1463 3	1471 9	1485 6	1500 8	1504 8	1514 2	1530 1	1548 2	1567 6	1585 8	1600 7
Per cent change (1)	3 1	—9 9	2 4	3 8	4 2	1 2	2 5	4 2	4 8	5 1	4 7	3 8
GNP price deflator (2)	171 2	175 3	179 2	183 8	188 0	192 3	196 3	200 4	204 5	208 5	212 5	216 9
Per cent change (1)	9 3	9 8	9 2	10 7	9 5	9 5	9 0	9 0	8 5	8 0	8 0	8 5
Consumer price index (3)	237 1	244 8	249 1	256 9	264 0	272 0	279 5	286 8	294 2	301 6	309 0	316 5
Per cent change (1)	18 1	11 6	7 0	13 2	11 5	12 5	11 0	11 0	10 5	10 5	10 0	10 0
Gross national product	2571 7	2564 8	2637 3	2730 6	2821 9	2894 4	2972 6	3065 7	3165 7	3267 6	3369 8	3471 7
Consumer spending	1631 0	1626 8	1682 2	1751 0	1813 1	1858 3	1909 3	1967 1	2028 0	2090 9	2154 0	2216 6
Durable goods	220 9	194 4	208 8	223 3	235 1	236 9	242 8	250 5	258 8	267 4	276 1	284 3
Autos and parts	100 6	77 5	87 0	94 6	102 0	102 0	104 9	108 6	112 5	116 2	119 8	123 3
Other durables	120 3	116 9	121 8	128 7	133 1	135 0	137 9	141 9	146 3	151 2	156 2	161 0
Nondurable goods	661 1	664 0	674 2	703 5	727 0	744 0	762 8	784 7	807 4	829 9	852 5	874 5
Services	749 0	768 4	799 2	824 2	851 0	877 4	903 7	931 8	961 8	993 6	1025 4	1057 8
Investment outlays	415 6	390 9	377 1	397 7	417 8	429 2	438 7	456 2	478 2	499 5	520 0	539 1
Fixed investment	413 1	383 5	393 2	415 1	422 8	424 2	430 7	444 2	462 2	480 5	499 0	517 1
Nonresidential	297 8	289 8	294 0	302 1	305 8	311 9	319 8	329 4	340 7	353 3	366 5	379 6
Structures	108 2	108 4	107 3	111 5	112 3	113 7	115 9	118 7	122 1	126 5	131 5	136 8
Equipment	189 7	181 4	186 8	190 7	193 5	198 2	203 9	210 6	218 6	226 9	234 9	242 8
Residential	115 2	93 6	99 2	113 0	117 0	112 4	110 9	114 9	121 5	127 1	132 5	137 5
Change in inventories	2 5	7 4	—16 0	—17 4	—5 0	5 0	8 0	12 0	16 0	19 0	21 0	22 0
Net exports	8 2	17 1	44 5	23 3	16 2	14 1	12 8	11 5	9 4	7 2	5 7	5 1
Exports	337 3	333 3	342 4	346 1	350 3	356 3	364 1	372 9	383 6	397 2	412 2	428 7
Imports	329 1	316 2	297 9	322 7	334 2	342 2	351 3	361 4	374 2	390 0	406 5	423 7
Government expenditures	516 8	530 0	533 5	558 6	574 8	592 7	611 8	630 9	650 1	670 1	690 2	711 0
Federal	190 0	198 7	194 9	212 0	219 8	228 8	238 6	248 8	259 2	270 2	281 6	293 5
National defense	125 0	128 7	131 4	141 6	147 6	154 5	162 3	170 6	179 3	188 4	198 1	208 1
Other	64 9	70 0	63 5	70 4	72 3	74 3	76 3	78 1	79 9	81 8	83 6	85 4
State and local	326 8	331 3	338 6	346 6	355 0	363 9	373 1	382 1	390 9	399 9	408 6	417 5
Final sales	2569 1	2557 4	2653 4	2748 0	2826 9	2889 4	2964 6	3053 7	3149 7	3248 6	3348 8	3449 7
Per cent change (1)	12 0	—1 8	15 9	15 0	12 0	9 1	10 8	12 6	13 2	13 2	12 9	12 6
Final sales (const 1972$)	1502 8	1462 0	1476 9	1492 7	1503 5	1502 2	1510 2	1524 2	1540 3	1558 5	1575 9	1590 6
Per cent change (1)	3 1	—10 4	4 1	4 3	2 9	—3	2 1	3 8	4 3	4 8	4 6	3 8
Personal income	2088 2	2114 5	2182 1	2256 2	2314 0	2380 4	2466 9	2549 0	2622 1	2702 1	2791 3	2871 5
Disposable income	1765 1	1784 1	1840 6	1897 0	1942 8	1994 0	2061 4	2152 8	2209 5	2271 8	2341 3	2402 9
Disposable income (1972$)	1021 0	1008 2	1018 5	1025 8	1027 2	1030 6	1042 7	1065 8	1070 5	1078 4	1090 3	1096 3
Saving rate (per cent)	4 9	6 2	6 1	5 1	4 1	4 3	4 9	6 1	5 7	5 4	5 5	5 2
Pretax profits	277 1	217 9	237 6	249 2	249 0	242 5	249 0	258 5	268 5	277 0	283 5	290 0
Nonfinancial	246 1	190 5	211 8	221 6	221 0	214 0	220 0	229 0	238 0	245 0	250 5	256 0
Domestic operating	132 6	112 5	121 2	127 8	130 0	127 0	133 0	142 0	152 0	160 0	167 0	173 0
Domestic inventory	61 4	31 1	41 7	48 4	47 5	46 0	46 5	47 0	47 5	48 0	48 5	49 0
Capital consumption adj	15 4	17 6	17 9	17 8	16 5	14 5	13 0	11 0	8 0	5 0	2 0	--
Foreign	36 6	29 3	30 9	27 7	27 0	26 5	27 5	29 0	30 5	32 0	33 0	34 0
Financial	31 0	27 4	25 8	27 6	28 0	28 5	29 0	29 5	30 5	32 0	33 0	34 0
After-tax profits	182 9	146 5	159 1	164 1	163 7	159 5	163 9	170 3	177 1	182 9	187 3	191 6
Plant & equipment exp	291 9	294 4	296 2	299 6	306 1	314 2	323 9	335 5	347 4	360 1	373 7	387 9
Private housing starts (4)	1 23	1 06	1 39	1 53	1 30	1 25	1 40	1 60	1 70	1 80	1 90	2 00
Auto sales-incl imports (4)	10 80	7 60	8 77	9 13	10 10	9 45	9 70	10 50	11 10	11 50	11 80	12 00
Industrial production (3)	152 5	144 6	142 1	149 1	150 8	151 2	153 0	156 0	159 4	162 5	165 3	167 7
Per cent change (1)	—1	—19 1	—6 7	21 1	4 7	1 0	5 0	8 0	9 0	8 0	7 0	6 0
Unemployment rate (per cent)	6 2	7 3	7 5	7 5	7 4	7 7	7 6	7 4	7 1	6 8	6 6	6 4

(1) quarter to quarter, annual rate
(2) index number, base 1972 = 100
(3) index number, base 1967 = 100
(4) millions of units
Note: data are seasonally adjusted at annual rates

Economics Division
March 27, 1981

ANNUAL ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1979	1980	1981	1982	Per Cent Change				Per Cent Change (4th Qtr. to 4th Qtr.)			
	(act.)	(act.)	(proj.)	(proj.)	1978-79	1979-80	1980-81	1981-82	1978-79	1979-80	1980-81	1981-82
GNP (constant 1972$)	1483.0	1480.7	1512.5	1575.6	3.2	−.2	2.0	4.2	1.7	−.3	3.0	4.6
GNP price deflator (1)	162.8	177.4	194.3	210.6	8.5	9.0	9.6	8.6	8.1	9.8	9.0	8.2
Consumer price index (2)	217.4	246.8	275.6	305.3	11.3	13.5	11.6	10.8	12.7	12.5	11.7	10.3
Gross national product	2413.9	2626.1	2938.6	3318.7	12.0	8.8	11.9	12.9	9.9	9.4	12.3	13.2
Consumer spending	1510.9	1672.8	1887.0	2122.4	12.0	10.7	12.8	12.5	11.7	10.7	12.3	12.7
Durable goods	212.3	211.9	241.3	271.7	6.5	−.2	13.9	12.6	2.8	3.3	12.2	13.5
Autos and parts	95.5	89.9	104.4	118.0	1.3	−5.9	16.1	13.0	−3.1	−.8	14.8	13.5
Other durables	116.8	121.9	137.0	153.7	11.3	4.3	12.3	12.2	8.1	6.6	10.2	13.5
Nondurable goods	602.2	675.7	754.6	841.1	13.7	12.2	11.7	11.5	14.5	10.1	11.5	11.4
Services	696.3	785.2	891.0	1009.6	12.4	12.8	13.6	13.3	12.2	13.4	13.1	13.5
Investment outlays	415.8	395.3	435.5	509.2	10.8	−4.9	10.2	16.9	4.4	−3.0	14.7	18.2
Fixed investment	398.3	401.2	430.5	489.7	12.8	.7	7.3	13.7	9.6	1.0	7.0	16.4
Nonresidential	279.7	296.0	316.7	360.0	15.6	5.8	7.0	13.7	12.2	4.1	9.0	15.2
Structures	96.3	108.8	115.2	129.2	22.4	13.0	5.8	12.2	22.6	6.1	6.5	15.2
Equipment	183.4	187.1	201.5	230.8	12.3	2.0	7.7	14.5	7.0	3.0	10.5	15.2
Residential	118.6	105.3	113.8	129.6	6.6	−11.2	8.1	13.9	3.8	−6.3	1.7	19.7
Change in inventories	17.5	−5.9	5.0	19.5	*	*	*	*	*	*	*	*
Net exports	13.4	23.3	13.6	6.8	*	*	*	*	*	*	*	*
Exports	281.3	339.8	360.9	405.4	28.0	20.8	6.2	12.3	25.8	13.0	7.7	15.0
Imports	267.9	316.5	347.3	398.6	21.6	18.1	9.7	14.8	28.7	8.0	12.0	17.2
Government expenditures	473.8	534.7	602.5	680.3	9.5	12.9	12.7	12.9	10.0	12.5	12.9	12.7
Federal	167.9	198.9	234.0	276.1	9.5	18.5	17.7	18.0	10.8	19.0	17.3	18.0
National defense	111.2	131.7	158.7	193.5	11.2	18.4	20.6	21.9	14.1	19.3	20.5	22.0
Other	56.7	67.2	75.3	82.7	6.1	18.6	12.0	9.8	4.8	18.5	11.0	9.2
State and local	305.9	335.8	368.5	404.2	9.6	9.8	9.7	9.7	9.5	8.9	10.2	9.2
Final sales	2396.4	2632.0	2933.6	3299.2	12.3	9.8	11.5	12.5	10.8	10.0	11.1	13.0
Final sales (const. 1972$)	1472.9	1483.6	1510.0	1566.3	3.5	.7	1.8	3.7	2.5	.1	2.1	4.4
Personal income	1943.8	2160.2	2427.6	2746.8	12.9	11.1	12.4	13.1	12.3	11.0	13.0	12.6
Disposable income	1641.7	1821.7	2037.8	2306.4	12.2	11.0	11.9	13.2	11.7	10.9	13.5	11.6
Disposable income (1972$)	1011.5	1018.4	1041.6	1083.9	3.1	.7	2.3	4.1	2.0	.8	3.9	2.9
Saving rate (per cent)	5.2	5.6	4.9	5.5	*	*	*	*	*	*	*	*
Pretax profits	255.4	245.5	249.7	279.7	14.4	−3.9	1.8	12.0	2.9	−2.4	3.7	12.2
Nonfinancial	225.5	217.5	221.0	247.4	15.6	−3.6	1.6	11.9	3.2	−1.5	3.3	11.8
Domestic operating	136.7	123.5	133.0	163.0	−.7	−9.7	7.7	22.6	−14.3	.4	11.1	21.8
Domestic inventory	42.6	45.7	46.7	48.2	75.3	7.1	2.4	3.2	70.5	−4.7	−2.9	4.3
Capital consumption adj.	15.9	17.2	13.7	3.7	17.8	8.2	−19.9	−72.7	−3.2	17.9	−38.2	−100.0
Foreign	30.3	31.1	27.5	32.4	53.8	2.6	−11.6	17.7	32.1	−12.6	4.7	17.2
Financial	29.8	27.9	28.7	32.4	5.7	−6.4	2.9	12.6	1.0	−9.2	6.9	15.3
After-tax profits	167.8	163.1	164.4	184.7	19.6	−2.8	.7	12.4	8.0	−2.4	3.8	12.5
Plant & equipment exp.	270.5	295.6	319.9	367.3	17.0	9.3	8.2	14.8	14.9	5.4	12.0	15.6
Private housing starts (3)	1.75	1.29	1.40	1.85	−14.2	−26.0	6.4	33.3	−22.2	−3.3	4.3	25.0
Auto sales (domestic) (3)	10.67	8.98	9.94	11.60	−5.7	−15.8	9.5	16.7	−12.3	−6.5	15.0	14.3
Industrial production (2)	152.5	147.1	152.8	163.7	4.4	−3.5	3.9	7.2	1.2	−2.2	4.6	7.5
Unemployment rate (per cent)	5.8	7.1	7.5	6.7	*	*	*	*	*	*	*	*

(1) index number, base 1972 = 100
(2) index number, base 1967 = 100
(3) millions of units
*Not applicable

Economics Division
March 27, 1981

cuts, once it is sure they will be enacted. The consumer sector, therefore, should not be a drag on business activity as it was a year ago.

Spending by Business The same is true of spending by business, which, in fact, should provide a fairly steady underpinning to the economy in the coming months. Total manufacturing and trade inventories fell in December for the first time since 1975 and industry as a whole entered 1981 in reasonably good shape, with working stocks apparently on the low side in many lines. Inventories at the producer level registered a good-sized advance in January, but the buildup was not primarily in finished goods and appeared to be largely intentional in order to bring working stocks of materials and supplies into line with needs. At an estimated 1.36 months supply, the inventory-sales ratio for business as a whole at the end of January, the latest month for which aggregate data are available, was close to the historic low. Even top-heavy stocks of new cars in dealers' hands have been brought down to more comfortable levels, and production of some models, accordingly, is being increased.

A sudden and pervasive softening in retail trade doubtless would create some inventory imbalances and could bring noticeable cutbacks in ordering by business. Yet, businesses generally have kept their inventories under tight control throughout the past year and more in the face of a great deal of volatility in sales and production. And, in view of the very high cost of carrying inventories, it seems unlikely stocks will now be allowed to become so excessive as to require forced liquidation. Judging from the latest reports from industrial purchasing agents, should final demand remain strong, some scrambling to add to inventories might occur over the next few months, particularly in defense-related industries.

At the same time, business plant and equipment expenditure programs are being kept largely intact, despite the elevated cost of financing and an emerging squeeze on profits in many industries, and even though industry as a whole is currently operating under 80 per cent of capacity. The agreement between the Administration and Congressional leaders that the recommended liberalization of depreciation allowances and other corporate tax benefits will be made retroactive at least to March 11 has helped to avoid widespread delays in capital spending pending enactment of the legislation.

New orders for machinery and equipment, though showing wide swings from month to month, are on a flat to rising trend, as are contract awards for industrial and commercial building; contracts for office building are holding up especially well. And the latest surveys of capital spending intentions show no significant cutback in overall industry spending plans since initial investment budgets were drawn up toward the end of last year. The volume of uncompleted investment projects and unspent capital appropriations at the start of this year was substantial, particularly in the energy industries and among the automobile manufacturers. Enactment of the tax incentives will surely spur some investment, so that plant and equipment expenditures should pick up later in the year and in 1982.

Impetus from Defense The step-up under way in the defense program almost certainly will bolster business activity in the year ahead. Defense ordering and production has been on a rising trend for some months, and if the military obligational authority being requested by the Reagan Administration is granted, as seems likely, a flood of orders is in store for later this year and in 1982 that could have a pronounced stimulative effect in a number of industries and in certain sections of the country. The greatest impetus from an expanding military program tends to come after the funds are obligated and the orders and contracts are placed, rather than when the expenditures finally occur.

In addition, while the odds seem favorable that the Reagan Administration will succeed in slowing the growth of Federal nondefense spending in fiscal 1982, little, if any, cutback in outlays will occur during the remainder of this fiscal year. Likewise, while many state and municipal budgets are being squeezed by rising costs and will be pinched even more if all of the Reagan Administration's proposed spending reductions are approved, the impact on state and local government purchases of goods and services will be felt mainly next year and thereafter.

A Summing Up Accordingly, it seems doubtful that the prospective slackening in overall business activity will be either pronounced or extended, and later in the year some quickening in the pace is likely. Even so, real growth this year, which is projected to be around 2 per cent, will be well below the gain normally experienced in the first full year of economic recoveries. In such an environment, business managements will presumably be slow to add to their work force, so that unemployment will stay relatively high, while the recovery in corporate profits will be limited.

Moreover, no significant improvement in the overall inflation situation is expected, and the advance in the consumer price index may well accelerate over the next few months. The full impact of the decontrol of domestic oil prices that became effective early in February has apparently been passed through to the retail level. But food prices, which have shown little change in recent months, will be moving up faster; high borrowing costs and rising feed grain prices have been prompting farmers to market their livestock earlier than they otherwise would, and this will not persist through the spring. More important, transportation and marketing costs are going up and so are labor costs, as unions are pushing for—and are receiving—catch-up increases, while productivity continues to lag.

Later in the year, as the rise in energy costs slows, and when the impact of increased home mortgage rates lessens, the advance in the CPI should slacken. Yet, the increase in the consumer price index this year will probably again be in the 12 per cent range, and the GNP deflator—a better indicator of the basic rate of inflation—is not likely to fall much under 10 per cent for 1981. If President Reagan is reasonably successful in obtaining his proposed spending cuts, and if the recommended personal income tax reduction is trimmed and limited to only one year, as seems to be favored in Congress, some dampening of inflationary expectations could well occur in the course of the year. But the improvement in the inflation situation projected by the Administration for next year and beyond seems optimistic, to say the least.■

BANKERS TRUST COMPANY

ECONOMIC BENCHMARKS

July 10, 1981

THE ECONOMY IN EARLY SUMMER

The performance the economy thus far in 1981 has brought a number of surprises. Business activity turned out to be much stronger—and a good deal more volatile—than was generally anticipated at the start of the year. Yet, the inflation numbers have moderated far more than seemed likely. Even so, interest rates pushed upward again during the spring, in some cases surpassing the peaks reached toward the close of last year. In contrast with the pattern in the April-June period of 1980, however, both money market rates and long-term yields have stubbornly resisted giving ground following their latest upsurge.

Although the current concern over economic prospects hardly approaches that which prevailed early in the summer a year ago, business sentiment nevertheless is characterized by a note of uneasiness because of the uncertain course of Federal Reserve policy and the impact—and timing—of the Reagan Administration's fiscal and economic programs. There is also a lack of consensus whether the recent dampening of prices will hold, or whether inflation is merely taking a breather and will again speed ahead next year.

Another Slowdown Clearly, economic activity is being affected by the persistence of high interest rates and has slackened materially from its rapid pace during the opening quarter of this year. Industrial production has slowed, and employment has fallen. Retail trade, excluding automobiles, has remained essentially flat in dollar terms over the past three months, while new-car sales—except for imports—have weakened conspicuously since the termination of the rebates late in March. The strong expansion seen earlier in U.S. exports has eased. And home building, the sector of the economy most sensitive to high borrowing costs, fell in May to its lowest level in a year. As a result, real growth in the second quarter appears to have been flat at best.

The slackening in overall business activity was to be expected in the wake of the speedup early in the year. In many ways, the slowdown is welcome, since the pace of expension in the first quarter was not sustainable and would surely have generated increased inflationary pressures and greater financial strains had it continued. Morever, there is little to suggest that the slowing of the economy marks the beginning of any broadly based or extended downturn in activity. Although the composite index of leading economic indicators in May registered its biggest month-to-month decline in a year, the indicators have followed an indecisive pattern since last autumn, and the latest reading should by no means be taken as a signal that a decline in overall business is under way. The economy has demonstrated its resilience over the past year and the areas that are obviously weak—autos and housing—show few signs of becoming weaker, while elsewhere the underpinnings to economic activity, from all appearances, are still reasonably firm.

Appraising the Sectors Despite the problems currently facing the industry, the housing market is not exhibiting the softness that was apparent during the spring of 1980. In fact, sales of new homes actually picked up in May. The thrift institutions have continued to make mortgage commitments, notwithstanding their poor deposit experience during the spring, and other sources of mortgage money have become available to provide financing. Home building is sure to stay depressed until interest rates come down. But in all probability, housing is at its low point for the year and will be moving upward later in 1981.

Similarly, though new-car buying will probably not strengthen appreciably until the cost of borrowing is reduced and the income tax cut is enacted, automobile sales undoubtedly have fallen about as far as they are likely to go; indeed, sales could well show some improvement over the summer, especially if the domestic producers again resort to rebates or other incentives to spur sales. Consumer buying of other big-ticket items presumably will be restrained for a while by the sluggish growth of real income, the comparatively low saving rate this year and the lack of employment gains. Still, the consumer debt position is better now than a year ago. And the addition of an estimated $15 billion annually to the personal income stream that began in July as a result of the inflation adjustment to Social Security checks should bolster spending somewhat over the summer, while the impending tax cut will increase disposable income across the board later in the year and give a lift to consumer buying.

Spending By Business Meanwhile, the business sector should continue to provide support to overall activity. Capital spending, which was instrumental in propelling the economy forward during the January-March period, is still advancing, though at a much slower pace than earlier. The latest Government survey of industry capital spending intentions, released early in June, pointed to some lowering of investment plans for this year as a whole, but actual plant and equipment outlays exceeded reported spending plans in the first quarter, as they have in every quarter since 1978, and it would not be surprising to see this happen again during the second half of the year.

QUARTERLY ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1980				1981				1982			
	1st (act.)	2nd (act.)	3rd (act.)	4th (act.)	1st (act.)	2nd (est.)	3rd (proj.)	4th (proj.)	1st (proj.)	2nd (proj.)	3rd (proj.)	4th (proj.)
GNP (const. 1972$)	1501.9	1483.3	1471.9	1485.6	1516.4	1513.6	1519.9	1535.8	1553.1	1571.6	1589.6	1605.1
Per cent change (1)	3.1	−9.9	2.4	3.8	8.6	−.7	1.7	4.2	4.6	4.6	4.8	4.0
GNP price deflator (2)	171.2	175.3	179.2	183.8	188.1	191.8	195.7	199.8	203.9	207.9	211.9	216.3
Per cent change (1)	9.3	9.8	9.2	10.7	9.8	8.0	8.5	8.5	8.5	8.0	8.0	8.5
Consumer price index (3)	237.1	244.8	249.1	256.9	263.6	268.6	274.7	281.4	288.5	295.8	303.0	310.3
Per cent change (1)	18.1	11.6	7.0	13.2	9.6	7.8	9.0	9.5	10.0	10.0	10.0	10.0
Gross national product	2571.7	2564.8	2637.3	2730.6	2853.0	2903.1	2975.2	3068.2	3166.7	3266.7	3368.2	3471.1
Consumer spending	1631.0	1626.8	1682.2	1751.0	1810.1	1837.4	1887.3	1945.4	2005.5	2067.1	2129.8	2192.6
Durable goods	220.9	194.4	208.8	223.3	238.3	228.1	233.3	241.7	249.7	257.5	266.3	275.5
Autos and parts	100.6	77.5	87.0	94.6	105.4	92.0	94.2	98.6	102.1	105.0	108.8	113.1
Other durables	120.3	116.9	121.8	128.7	132.9	136.1	139.1	143.1	147.6	152.5	157.5	162.4
Nondurable goods	661.1	664.0	674.2	703.5	726.0	739.2	759.0	780.8	803.2	825.5	847.9	869.6
Services	749.0	768.4	799.2	824.2	845.8	870.1	895.1	922.9	952.6	984.1	1015.5	1047.6
Investment outlays	415.6	390.9	377.1	397.7	437.1	445.6	452.9	470.3	491.9	512.6	532.6	552.2
Fixed investment	413.1	383.5	393.2	415.1	432.7	435.6	442.9	457.3	474.9	493.6	512.6	531.2
Nonresidential	297.8	289.8	294.0	302.1	315.9	323.5	332.3	342.8	355.0	368.1	381.8	395.5
Structures	108.2	108.4	107.3	111.5	117.2	120.0	122.9	126.5	130.5	135.2	140.6	146.2
Equipment	189.7	181.4	186.8	190.7	198.7	203.5	209.3	216.3	224.5	233.0	241.3	249.3
Residential	115.2	93.6	99.2	113.0	116.7	112.1	110.6	114.6	119.9	125.5	130.8	135.7
Change in inventories	2.5	7.4	−16.0	−17.4	4.5	10.0	10.0	13.0	17.0	19.0	20.0	21.0
Net exports	8.2	17.1	44.5	23.3	29.2	27.3	23.6	22.6	20.7	18.9	17.9	17.7
Exports	337.3	333.3	342.4	346.1	367.4	373.7	380.0	389.2	400.4	414.6	430.3	447.5
Imports	329.1	316.2	297.9	322.7	338.2	346.4	356.4	366.7	379.7	395.7	412.5	429.9
Government expenditures	516.8	530.0	533.5	558.6	576.5	592.8	611.3	629.9	648.6	668.0	688.0	708.6
Federal	190.0	198.7	194.9	212.0	221.6	229.3	239.1	249.2	259.6	270.5	281.8	293.6
National defense	125.0	126.7	131.4	141.6	145.2	152.0	159.7	167.9	176.4	185.4	194.9	204.8
Other	64.9	70.0	63.5	70.4	76.4	77.3	79.4	81.3	83.2	85.1	86.9	88.8
State and local	326.8	331.3	338.6	346.6	354.9	363.5	372.2	380.8	389.1	397.5	406.2	415.0
Final sales	2569.1	2557.4	2653.4	2748.0	2848.5	2893.1	2965.2	3055.2	3149.7	3247.7	3348.2	3450.1
Per cent change (1)	12.0	−1.8	15.9	15.0	15.5	6.4	10.3	12.7	13.0	13.0	13.0	12.7
Final sales (const. 1972$)	1502.8	1462.0	1476.9	1492.7	1517.8	1508.4	1514.8	1529.3	1544.8	1562.5	1580.1	1595.4
Per cent change (1)	3.1	−10.4	4.1	4.3	6.9	−2.4	1.7	3.9	4.1	4.7	4.6	3.9
Personal income	2088.2	2114.5	2182.1	2256.2	2319.8	2368.8	2444.5	2518.3	2592.7	2671.0	2759.3	2838.4
Disposable income	1765.1	1784.1	1840.6	1897.0	1947.8	1984.3	2042.9	2121.0	2278.6	2239.2	2344.1	2406.1
Disposable income (1972$)	1021.0	1008.2	1018.5	1025.8	1033.3	1029.1	1036.9	1053.6	1059.1	1066.6	1095.3	1101.6
Saving rate (per cent)	4.9	6.2	6.1	5.1	4.6	5.0	5.2	5.9	5.5	5.3	6.8	6.5
Pretax profits	277.1	217.9	237.6	249.5	259.1	256.3	258.2	268.8	279.8	290.2	299.8	309.3
Nonfinancial	246.1	190.5	211.8	222.1	233.6	230.3	231.8	241.9	252.0	261.1	269.7	278.3
Domestic operating	132.6	112.5	121.2	128.2	152.1	152.1	154.6	164.8	176.0	186.2	196.4	205.5
Domestic inventory	61.4	31.1	41.7	48.4	39.2	38.8	38.3	38.8	39.3	39.8	40.3	40.8
Capital consumption adj.	15.4	17.6	17.9	17.8	16.9	14.5	13.0	11.0	8.0	5.0	2.0	0.0
Foreign	36.6	29.3	30.9	27.7	25.4	24.9	25.9	27.3	28.7	30.1	31.0	32.0
Financial	31.0	27.4	25.8	27.4	25.5	26.0	26.4	26.9	27.8	29.1	30.1	31.0
After-tax profits	182.9	148.5	159.1	164.3	168.0	166.1	167.6	174.6	181.9	188.8	195.0	201.2
Plant & equipment exp.	291.9	294.4	296.2	299.6	312.2	316.1	325.9	337.5	349.5	362.3	376.0	390.2
Private housing starts (4)	1.23	1.06	1.39	1.53	1.39	1.20	1.30	1.40	1.55	1.65	1.75	1.85
Auto sales-incl. imports (4)	10.80	7.60	8.77	9.13	10.17	8.10	9.10	9.85	10.65	10.90	11.25	11.50
Industrial production (3)	152.5	144.6	142.1	149.1	151.8	152.8	154.1	157.1	160.6	163.7	166.5	168.9
Per cent change (1)	−.1	−19.1	−6.7	21.2	6.6	1.0	3.5	8.0	9.0	8.0	7.0	6.0
Unemployment rate (per cent)	6.2	7.3	7.5	7.5	7.3	7.4	7.5	7.4	7.1	6.8	6.6	6.4

(1) quarter to quarter, annual rate
(2) index number, base 1972 = 100
(3) index number, base 1967 = 100
(4) millions of units
Note: data are seasonally adjusted at annual rates.

Economics Division
July 10, 1981

ANNUAL ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1979	1980	1981	1982	Per Cent Change				Per Cent Change (4th Qtr. to 4th Qtr.)			
	(act.)	(act.)	(proj.)	(proj.)	1978-79	1979-80	1980-81	1981-82	1978-79	1979-80	1980-81	1981-82
GNP (constant 1972$)	1483.0	1480.7	1521.4	1579.8	3.2	—.2	2.8	3.8	1.7	—.3	3.4	4.5
GNP price deflator (1)	162.8	177.4	193.9	210.0	8.5	9.0	9.3	8.3	8.1	9.8	8.7	8.2
Consumer price index (2)	217.4	246.8	272.1	299.4	11.3	13.5	10.0	10.0	12.7	12.5	9.1	10.0
Gross national product	2413.9	2626.1	2949.9	3318.2	12.0	8.8	12.3	12.5	9.9	9.4	12.4	13.1
Consumer spending	1510.9	1672.8	1870.1	2098.8	12.0	10.7	11.8	12.2	11.7	10.7	11.1	12.7
Durable goods	212.3	211.9	235.3	262.2	6.5	—.2	11.1	11.4	2.8	3.3	8.2	14.0
Autos and parts	95.5	89.9	97.5	107.3	1.3	—5.9	8.5	10.0	—3.1	—.8	4.2	14.7
Other durables	116.8	121.9	137.8	155.0	11.3	4.3	13.0	12.5	8.1	6.6	11.2	13.5
Nondurable goods	602.2	675.7	751.2	836.6	13.7	12.2	11.2	11.4	14.5	10.1	11.0	11.4
Services	696.3	785.2	883.5	1000.0	12.4	12.8	12.5	13.2	12.2	13.4	12.0	13.5
Investment outlays	415.8	395.3	451.5	522.3	10.8	—4.9	14.2	15.7	4.4	—3.0	18.3	17.4
Fixed investment	398.3	401.2	442.1	503.1	12.8	.7	10.2	13.8	9.6	1.0	10.2	16.2
Nonresidential	279.7	296.0	328.6	375.1	15.6	5.8	11.0	14.2	12.2	4.1	13.5	15.4
Structures	96.3	108.8	121.6	138.1	22.4	13.0	11.8	13.5	22.6	6.1	13.4	15.6
Equipment	183.4	187.1	207.0	237.0	12.3	2.0	10.6	14.5	7.0	3.0	13.4	15.2
Residential	118.6	105.3	113.5	128.0	6.6	—11.2	7.8	12.8	3.8	—6.3	1.4	18.5
Change in inventories	17.5	—5.9	9.4	19.2	*	*	*	*	*	*	*	*
Net exports	13.4	23.3	25.7	18.8	*	*	*	*	*	*	*	*
Exports	281.3	339.8	377.6	423.2	28.0	20.8	11.1	12.1	25.8	13.0	12.5	15.0
Imports	267.9	316.5	351.9	404.4	21.6	18.1	11.2	14.9	28.7	8.0	13.6	17.2
Government expenditures	473.8	534.7	602.6	678.3	9.5	12.9	12.7	12.6	10.0	12.5	12.8	12.5
Federal	167.9	198.9	234.8	276.4	9.5	18.5	18.0	17.7	10.8	19.0	17.5	17.8
National defense	111.2	131.7	156.2	190.4	11.2	18.4	18.6	21.9	14.1	19.3	18.5	22.0
Other	56.7	67.2	78.6	86.0	6.1	18.6	17.0	9.4	4.8	18.5	15.5	9.2
State and local	305.9	335.8	367.8	402.0	9.6	9.8	9.5	9.3	9.5	8.9	9.9	9.0
Final sales	2396.4	2632.0	2940.5	3298.9	12.3	9.8	11.7	12.2	10.8	10.0	11.2	12.9
Final sales (const. 1972$)	1472.9	1483.6	1517.6	1570.7	3.5	.7	2.3	3.5	2.5	.1	2.4	4.3
Personal income	1943.8	2160.2	2412.9	2715.3	12.9	11.1	11.7	12.5	12.3	11.0	11.6	12.7
Disposable income	1641.7	1821.7	2024.0	2292.0	12.2	11.0	11.1	13.2	11.7	10.9	11.8	13.4
Disposable income (1972$)	1011.5	1018.4	1038.2	1080.6	3.1	.7	1.9	4.1	2.0	.8	2.7	4.6
Saving rate (per cent)	5.2	5.8	5.2	6.0	*	*	*	*	*	*	*	*
Pretax profits	255.4	245.5	260.8	294.8	14.4	—3.9	6.1	13.1	2.9	—2.3	7.7	15.1
Nonfinancial	225.5	217.6	234.4	265.3	15.6	—3.5	7.7	13.2	3.2	—1.3	8.9	15.1
Domestic operating	136.7	123.6	155.9	191.0	—.7	—9.6	26.1	22.5	—14.3	.7	28.6	24.7
Domestic inventory	42.6	45.7	38.8	40.1	75.3	7.1	—15.1	3.4	70.5	—4.7	—19.9	5.3
Capital consumption adj.	15.9	17.2	13.8	3.7	17.8	8.2	—19.4	—72.9	—3.2	17.9	—38.2	—100.0
Foreign	30.3	31.1	25.9	30.5	53.8	2.6	—16.9	17.7	32.1	—12.6	—1.5	17.2
Financial	29.8	27.9	26.2	29.5	5.7	—6.4	—6.2	12.6	1.0	—9.9	—1.9	15.3
After-tax profits	167.8	163.2	169.1	191.7	19.6	—2.7	3.6	13.4	8.0	—2.3	6.3	15.2
Plant & equipment exp.	270.5	295.6	322.9	369.5	17.0	9.3	9.3	14.4	14.9	5.4	12.6	15.6
Private housing starts (3)	1.75	1.29	1.32	1.70	—14.2	—26.0	1.5	28.5	—22.2	—3.3	—8.8	32.1
Auto sales-incl. imports (3)	10.67	8.98	9.30	11.07	—5.7	—15.8	2.5	19.0	—12.3	—6.5	7.8	16.8
Industrial production (2)	152.5	147.1	154.0	164.9	4.4	—3.5	4.7	7.1	1.2	—2.2	5.4	7.5
Unemployment rate (per cent)	5.8	7.1	7.4	6.7	*	*	*	*	*	*	*	*

(1) Index number, base 1972 = 100.
(2) Index number, base 1967 = 100.
(3) Millions of units.
*Not applicable.

Economics Division
July 10, 1981

Virtually all of the other evidence bearing on the course of capital spending—new orders for machinery and equipment, new capital appropriations and contract awards for commercial and industrial building—though admittedly not strong, also suggests that no significant trimming of business investment programs has taken place. In addition, there is a substantial backlog of unspent capital appropriations and a sizable carryover of uncompleted investment projects both in manufacturing and the utilities. A few company managements apparently have delayed the start of some new investment projects awaiting clarification of the prospective tax legislation, and enactment of the business tax incentives will surely spur some investment, so that plant and equipment spending should pick up later this year and accelerate in 1982.

Significant, too, is that there are no signs of an excessive buildup of business inventories that might intensify the slowdown in economic activity during the summer. Additions to manufacturers stocks in May amounted to $1.4 billion at book value, less than the April accumulation and well below the buildup that occurred in each of the first three months of this year. Aside from the well-publicized oil glut, which is having the salutary effect of putting downward pressure on retail gasoline prices, the only important area where inventories might present a problem is the buildup recently in dealers' stocks of unsold new cars. At the end of June, new-car inventories were again back at a 75-day supply at current selling rates, well above the 60-day figure that the auto makers consider appropriate for this time of year; whereas the buildup was to a large degree intentional in preparation for the extended shutdown for this year's model changeover, dealer stocks clearly have grown more than was intended.

All the same, the closely watched ratio of manufacturers' inventories to shipments at the end of May, the latest month for which data are available, stood at a relatively comfortable 1.57 months, compared with 1.72 months at the close of May last year. The inventory-sales ratio at the retail and wholesale level, viewed in perspective, looks even better. Since stocks on hand generally appear to be at manageable levels, and barring a collapse in sales, any production cutbacks from here on should be limited, while a strengthening of final demand would probably be reflected fairly promptly in a step-up in output.

The Defense Sector Although military ordering and contracting has not as yet had a conspicuous effect on inventory accumulation, it can be expected to make itself felt in this area later in the year and moving into 1982. Defense spending is also rising more rapidly, and the stimulus emanating from this quarter will largely offset the slowdown in Federal nonmilitary spending in prospect and the slackening under way in state and local government purchases of goods and services.

Given the slowdown in economic activity among most of our trading partners, and the deterioration in our competitive position because of the strengthening of the dollar, U.S. exports may show no further improvement during the rest of the year, but neither should they decline materially.

Thus, while no sector of the economy appears in a position to provide forward momentum, business activity, at this point, seems more likely to follow a flat path for a time than to decline, and then pick up in the autumn; the economy has a strong disposition toward growth, unless held back by Government policy. Monetary policy almost surely will continue to lean toward restraint, but with the money supply now seemingly under control, some easing is in order over the summer, which should bring interest rates down. And inflation is less inhibiting now to economic expansion than it has been over the past two years.

Comment on Inflation In view of recent developments in the energy area and the sustained softness in industrial raw materials prices, the inflation numbers should continue to make comparatively good reading and stay in single digits for several more months. Chances are, however, that we have seen the bulk of the improvement on the price front for the time being. Food prices have begun to push higher, after being flat early in the year. Moving into 1982, with economic activity strengthening across a broad front, industrial prices could well firm once again. Morever, labor costs will probably continue to advance apace; although the rate of wage increases has not accelerated this year, neither has it slowed, and there is little to suggest that productivity has picked up permanently. In short, while some progress is being made toward a lower inflation rate, it is too soon to conclude that the improvement will continue. ■